

PUBLIC DISCLOSURE

DECEMBER 8, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HARVARD UNIVERSITY EMPLOYEES CREDIT UNION

1350 MASSACHUSETTS AVENUE
CAMBRIDGE, MA 02138

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Harvard University Employees Credit Union** (or the "Credit Union") prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire membership in a manner consistent with its resources and capabilities.

This examination was conducted utilizing three performance criteria for small institutions: 1) Average Net Loan to Share ratio, 2) Lending to Members of Different Incomes and 3) Fair Lending.

The Credit Union's average net loan-to-share for the previous eight periods is 63.7 percent. Based on the increasing loan-to-share ratio trend and the Credit Union's position in comparison to other similar institutions, it meets the standards for satisfactory performance.

An analysis of the Credit Union's real estate related and consumer lending activity by borrower income for 2001, 2002 and year-to-date December 8, 2003, revealed that the Credit Union maintained a good concentration of loans to low and moderate income members despite high local real estate prices. A rating of "meets satisfactory performance" was granted for this criterion.

The Credit Union's fair lending performance is considered satisfactory.

PERFORMANCE CONTEXT

Description of Institution

Harvard University Employees Credit Union is an industrial credit union chartered by the Commonwealth of Massachusetts in 1939 for the purpose of promoting thrift among its members and the loaning of such savings to its members. As an industrial credit union, Harvard University Employees Credit Union is member oriented and is committed to ascertaining and meeting the credit needs of its membership.

As of September 30, 2003, the Credit Union had total assets of \$185,131,895, and the loans comprised approximately \$110,796,534, or 59.8 percent of total assets. The loan portfolio is composed of residential mortgages, personal, new and used auto, lines of credit, credit cards, other real estate and shared secured loans. The majority of the Credit Union's loan portfolio, 71.6 percent, represents residential mortgage loans followed by used auto loans which represented 8.0 percent.

The following table depicts the Credit Union's loan portfolio composition based on the September 30, 2003 National Credit Union Administration's (NCUA) Call Report of Condition.

LOAN PORTFOLIO COMPOSITION		
LOAN TYPE	\$ AMOUNT	%
FIRST MORTGAGE	\$ 79,324,274.00	71.6%
USED AUTO	\$ 8,849,892.00	8.0%
LINES OF CREDIT	\$ 7,658,418.00	6.9%
NEW AUTO	\$ 6,938,557.00	6.3%
CREDIT CARDS	\$ 3,506,451.00	3.2%
OTHER REAL ESTATE	\$ 2,903,497.00	2.6%
SHARED SECURED	\$ 1,615,445.00	1.4%
TOTALS	\$110,796,534.00	100%

September 30, 2003 NCUA Call Report of Condition

The Credit Union's main office is located at 1350 Massachusetts Avenue, Cambridge. Business hours are Monday through Friday 8:30 A.M. to 4:30 P.M. The Credit Union also maintains two branches in the Longwood Medical Area: the Kresge Building at 677 Huntington Avenue in Boston, and at the Massachusetts General Hospital Clinics Building, at 134 Fruit Street in Boston. The hours at the two branches are 9:00 A.M. to 4:00 P.M. The Credit Union's hours are considered convenient and accessible to its members. The Credit Union maintains six ATM machines located at its Operations Center; Harvard Square - Holyoke Center Arcade; Longwood Medical Area Cafeteria; Massachusetts General Hospital Clinics Building; Partners HealthCare; and Harvard Business School - Spangler Center. Credit Union ATM cards are connected to several networks including Cirrus, NYCE, Exchange, American Express, Discovery and Novus. The credit union is a member of the SUM Program.

Description of Institution (continued)

During the current examination period, the Credit Union applied for and was granted additional lending authority under the “Parity with Federal Credit Union Regulations”, 209 CMR 50.00.

The granted powers are described below:

1. Personal loans up to a maximum of \$25,000 for a term up to 5 years pursuant to 209 CMR 50.06(3)(e);
2. 100 percent automobile financing up to \$50,000 for a term up to 6 years pursuant to 209 CMR 50.06(3)(f);
3. Increase credit card loans up to \$25,000 pursuant to 209 CMR 50.06(3)(g);
4. Residential first mortgage loans up to \$500,000 for a term up to 30 years pursuant to 209 CMR 50.06(3)(j); and
5. 95 percent loan-to-value residential first mortgage loans pursuant to 209 CMR 50.06(3)(k).

Based on the Credit Union’s size, financial condition, product offerings and branch network, there appears to be no significant financial or legal impediments, which would limit the Credit Union’s ability to help meet the credit needs of its membership.

The Credit Union was last examined for compliance with CRA by the Division on September 23, 1999. That examination resulted in a “Satisfactory” rating.

Description of Assessment Area (Membership)

The CRA regulation requires that each financial institution delineate one or more assessment area(s) within which the institution’s record of helping to meet community credit needs is evaluated. Under the Massachusetts CRA regulation, 209 CMR 46.41(8), a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area. Harvard University Employees Credit Union is an industrial credit union whose membership is based upon affiliation rather than geography, has elected to identify its assessment area in this manner.

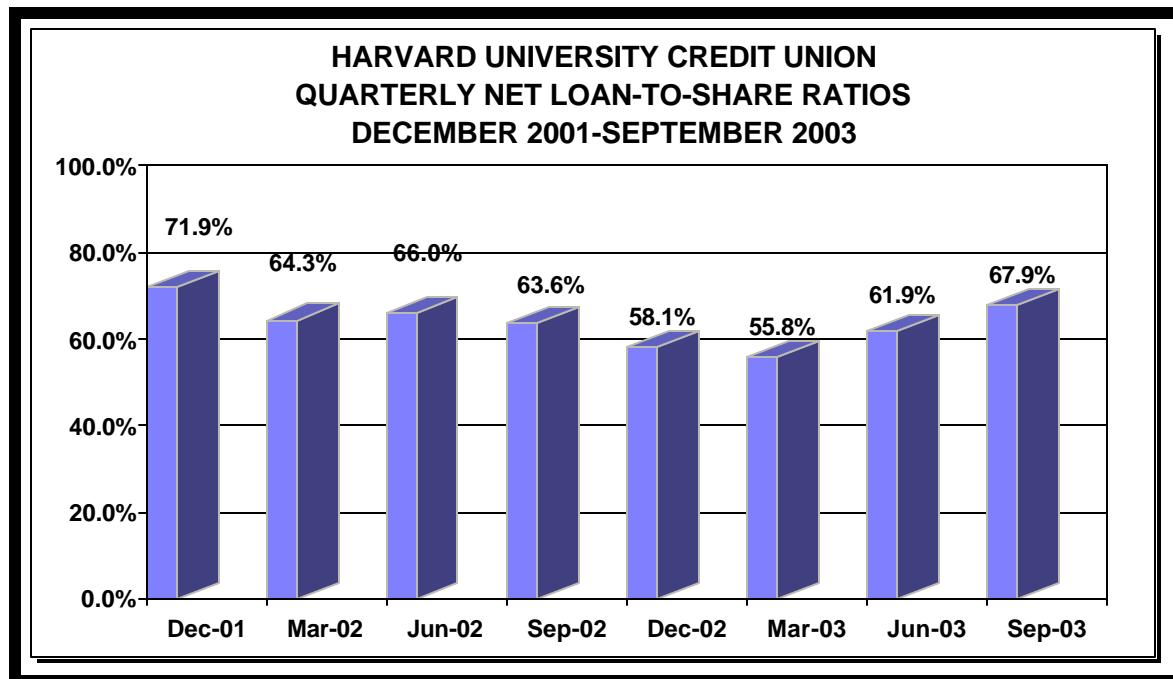
The Credit Union’s bylaws state, in part, that: “Membership in this corporation shall be limited to persons employed by Harvard University, associated organizations, and members of their immediate families, specific eligibility of an associated organization will be determined by the Board of Directors...”

PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

An analysis of Harvard University Employees Credit Union's net loan-to-share ratio was performed during the examination. The calculation incorporated eight quarterly periods of the Credit Union's net loan to total share figures utilizing the NCUA 5300 call reports. This review included the quarters ending December 30, 2001 through September 30, 2003. The institution's average net loan-to-share ratio during this period was determined to be 61.2 percent.

The following graph illustrates the loan-to-share trends.



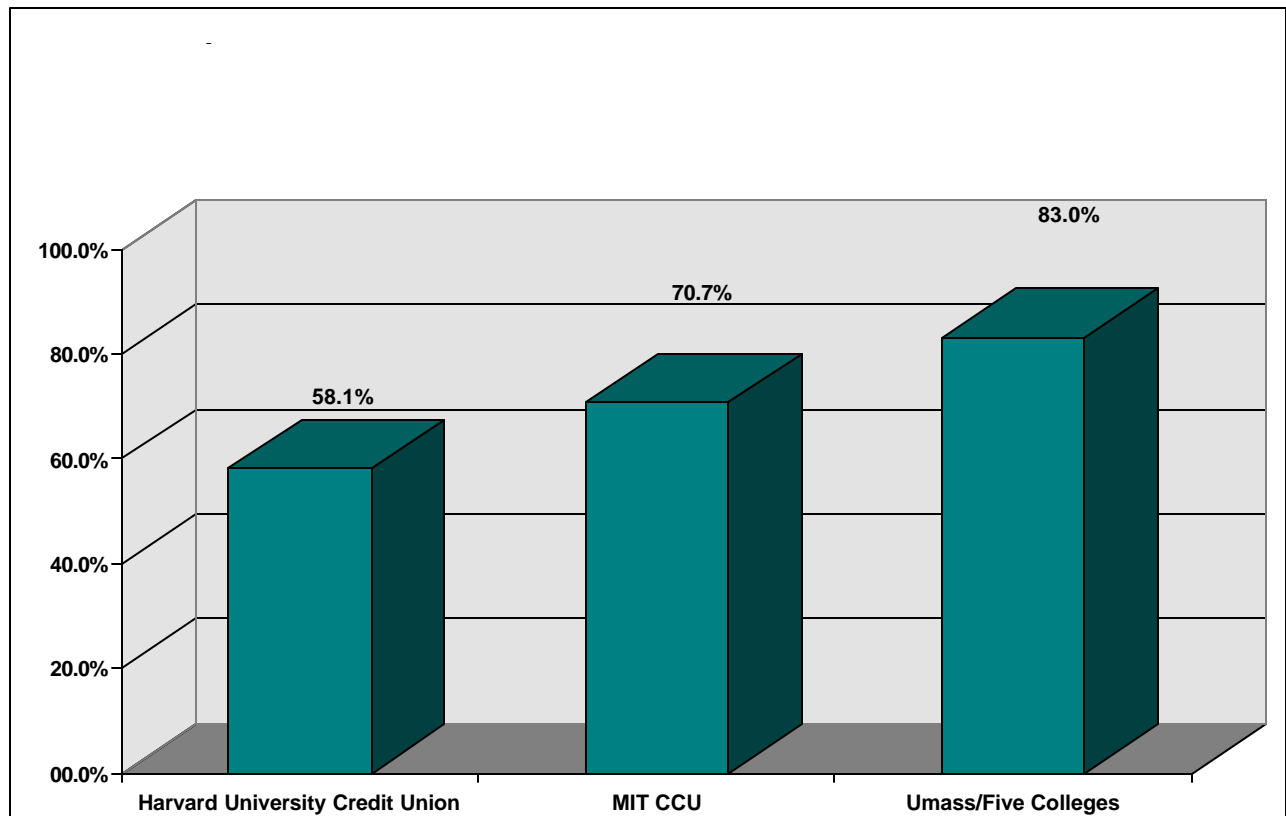
Source: NCUA Call Reports

The period from December 2001 through March 2002 reflected a decrease in the loan to deposit ratio due to an influx of deposits. Management stated that this deposit activity was due to a large number of members' concerned with a merger agreement between two large financial institutions in Massachusetts, which took affect in January 2002.

The above graph reflects a fluctuating pattern due to management's decision to sell all residential loans in 2002 to FNMA and then its decision in 2003 to portfolio all loans.

1. LOAN TO SHARE ANALYSIS (continued)

The following graph illustrates the loan-to-share trends for comparable industrial credit unions as of December 31, 2002.



The Credit Union's net loan-to-share ratio is relatively low in comparison to these other industrial credit unions. The Division utilized other university-based employee credit unions as comparables.

Based on the above information and Harvard University Employees Credit Union's capacity to lend, the capacity of other similarly situated institutions to lend to their memberships, and the lending opportunities available within the organization, Harvard University Employees Credit Union's loan-to-share ratio meets the standards for satisfactory performance.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of residential loans and a sample of consumer loans extended within the Credit Union's membership among various income levels was conducted. The majority of the employee base of the Harvard University Employees Credit Union reside within the Boston Metropolitan Statistical Area (MSA). Hence, the analysis of the borrower income levels was identified as the ratio of borrower income to the Boston MSA. The median family incomes for the Boston MSA were \$70,000 for 2001, \$74,200 for 2002 and \$80,800 for 2003. Income figures were based on estimated 2001, 2002 and 2003 data from the Department of Housing and Urban Development (HUD).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

The Credit Union originated 1003 HMDA reportable loans during the current examination period under review. An analysis by number and dollar amount was conducted to ascertain the Credit Union's residential lending activity by the various income categories. The information included in the table below indicates that the majority of residential loans, totaling 504 loans or 50.2 percent, were granted to upper-income members which is reflective of the salary structure within Harvard University. Also, of the total mortgage loans originated during the examination period, 30 loans, or 3.0 percent, were granted to low-income members and 179 loans or 17.8 percent was granted to moderate-income members. The loans categorized as "N/A" represents loans originated to Credit Union employees. Also, the table below reflects a significant increase in originations to upper-income members.

RESIDENTIAL MORTGAGE LOANS ORIGINATED BY INCOME OF BORROWER **BY NUMBER**

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTALS	
	#	%	#	%	#	%	#	%
<50%	3	1.6	8	2.2	19	4.4	30	3.0
50% - 79%	33	16.9	66	17.8	80	18.3	179	17.8
80% - 119%	56	28.7	100	27.0	125	28.5	281	28.0
120% >	103	52.8	196	53.0	205	46.8	504	50.2
N/A—Employee Loans	0	0	0	0	9	2.0	9	1.0
TOTALS	195	100	370	100	438	100	1003	100

Source: HMDA/LAR Data 2001, 2002 and YTD December 8, 2003

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

The information included in the table below indicates that the majority of residential mortgage loans originated by dollar amount (62.0 percent) were granted to upper-income members during the period reviewed. Also, of the total mortgage loans originated during the examination period, 1.8 percent were granted to low-income members and 11.8 percent was granted to moderate-income members

RESIDENTIAL LOANS ORIGINATED BY INCOME OF BORROWER BY DOLLAR AMOUNT

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTALS	
	\$000s	%	\$000s	%	\$000s	%	\$000s	%
<50%	194	0.5	1,038	1.7	1,895	2.6	3,127	1.8
50% - 79%	3,210	8.4	7,600	12.0	9,992	13.2	20,802	11.8
80% - 119%	8,434	22.0	13,510	21.4	19,917	26.3	41,861	23.6
120% >	26,490	69.1	40,968	64.9	42,365	56.0	109,823	62.0
N/A	0	0	0	0	1,460	1.9	1,460	0.8
TOTALS	38,328	100	63,116	100	75,629	100	177,073	100

Source: HMDA/LAR Data 2001, 2002 and YTD December 8, 2003

The above graphs reflect a substantial increase in residential lending in comparison to the previous examination. This increase is due to significant refinancing activity during the current examination period where Credit Union members took advantage of the attractive interest rates that were available.

An analysis of a sample of 60 consumer loans, by number and dollar amount, originated during the current examination period was completed.

The information included in the table below indicates that 24 consumer loans or 40.0 percent were granted to low-income members and 20 loans or 33.3 percent were granted to moderate-income members.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

CONSUMER LOAN ORIGINATIONS BY INCOME OF BORROWER BY NUMBER

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTALS	
	#	%	#	%	#	%	#	%
<50%	3	15.0	8	40.0	13	65.0	24	40.0
50% - 79%	10	50.0	5	25.0	5	25.0	20	33.3
80% - 119%	3	15.0	2	10.0	2	10.0	7	11.7
120% >	4	20.0	5	25.0	0	0.0	9	15.0
TOTALS	20	100	20	100	20	100	60	100

Source: Credit Union files 2001, 2002 and YTD December 8, 2003

The information included in the table below indicates that by dollar amount, 35.8 percent was granted to moderate-income members. Also, 31.3 percent was granted to low-income members.

CONSUMER LOAN ORIGINATIONS BY INCOME OF BORROWER BY DOLLAR AMOUNT

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTALS	
	\$000s	%	\$000s	%	\$000s	%	\$000s	%
<50%	75	23.0	50	28.8	89	48.2	214	31.3
50% - 79%	136	41.7	46	26.4	63	34.0	245	35.8
80% - 119%	45	13.8	12	6.9	33	17.8	90	13.1
120% >	70	21.5	66	37.9	0	0.0	136	19.8
TOTALS	326	100	174	100	185	100	685	100

Source: Credit Union files 2001, 2002 and YTD December 8, 2003

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

It should be stated that consumer loans typically consider the income of only one borrower. For the purposes of this analysis, however, they are compared to a median family income which slightly inflated the originations of the lower income categories.

The distribution of credit among members and the above information reflects a reasonable penetration of loans among members of different income levels, including those of low and moderate-income. Therefore, the distribution of credit among different income levels meets the standards for satisfactory performance.

3. REVIEW OF COMPLAINTS/FAIR LENDING

Harvard University Employees Credit Union has not received any complaints related to its CRA performance since the previous examination. However, the Credit Union has procedures in place should any consumer complaints related to CRA be received.

FAIR LENDING POLICIES AND PRACTICES

The Credit Union has a formal fair lending policy, which meets the requirements of Regulatory Bulletin 2.3-101, the Division's fair lending policy. The Credit Union's fair lending policy is included in its general loan policy.

The Credit Union sponsored several first-time homebuyer seminars based on FNMA lending principals. The locations of these seminars included: Harvard Management Company, Spaulding Rehabilitation, Massachusetts General Hospital and the Longwood Medical Area.

A second review has been established and is documented on every mortgage denial. The Credit Committee has the authority to approve or deny mortgage loans. If the loan is refused or a counter offer is made by the credit committee, the loan is sent for second review to the Chairman of the Credit Committee, who has not previously acted on the application.

The Credit Union's marketing activity includes placing information on its credit products and services in public view within the main lobby of its main office, branches and offices where its members are employed. The Credit Union also includes statement stuffers in correspondence sent out to the membership and there are brochures located in the Credit Union's lobby. The Credit Union has established a website where members can access information regarding the Credit Union's services and loan products.

FAIR LENDING POLICIES AND PRACTICES (continued)

In 2003, Harvard University changed its compensation policy from weekly to biweekly. The Credit Union established a low interest loan product “the transition loan” to assist university employees with their budget responsibilities as the salary transition created financial concerns. An analysis of transitional loan originations revealed that the majority of members who received this assistance were considered low or moderate income in reference to the Boston MSA median family incomes.

A fair lending review was conducted as part of this examination to ensure compliance with governing fair lending regulations. The review identified no violations of the substantive provisions of the anti-discriminatory laws and regulations.

Based on the foregoing information, the Credit Union meets the standards for satisfactory performance in this category.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

HARVARD UNIVERSITY EMPLOYEES CREDIT UNION

For compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **DECEMBER 8, 2003**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.